

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 /115 W
-----049984 141018Z /21

R 141032Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9366
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 10894

USEEC AND USOECD ALSO FOR EMBASSIES

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: ECON, EFIN GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY (WEEK ENDING
JUNE 12)

REF.: BONN 10376, BONN 9847, BONN 8985 AND BONN 1777

1. SUBJECTS COVERED: FINANCING OF SUPPLEMENTARY BUDGET;
FOREIGN EXCHANGE MARKET (TABLE); MONEY MARKET (TABLE);
BUNDESBANK FOREIGN POSITION; BANK LIQUIDITY; BOND
MARKET; FOREIGN DM BONDS.

2. SUPPLEMENTARY BUDGET TO BE FINANCED THROUGH EXPEN-
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DITURE CUTS ELSEWHERE:
THE BUNDESTAG BUDGET COMMITTEE HAS NOW COMPLETED DELI-
BERATION OF THE GOVERNMENT'S DRAFT OF A DM 0.94 BILLION
SUPPLEMENTARY BUDGET FOR 1978 (BONN 8985). WHILE
LEAVING EXPENDITURES IN THE SUPPLEMENTARY BUDGET
ESSENTIALLY AS PROPOSED, THE COMMITTEE FAILED TO GO
ALONG WITH THE ADDITIONAL BORROWING AUTHORITY SOUGHT

BY THE GOVERNMENT (DM 0.71 BILLION) AND PROPOSED TO CLOSE THE FINANCIAL GAP BY CUTTING EXPENDITURES CONTAINED IN THE APPROVED REGULAR BUDGET. THUS, SUBMISSION OF THE SUPPLEMENTARY BUDGET IN THE END BROUGHT NO MORE THAN A SHIFT IN EXPENDITURES. THE BUDGETED OVERALL VOLUME OF FEDERAL OUTLAYS (DM 188.7 BILLION, UP 10.4 PERCENT FROM 1977 RESULTS) AND NET BORROWING (DM 30.8 BILLION AS OPPOSED TO DM 21.7 BILLION INCURRED LAST YEAR) REMAIN UNCHANGED FROM THE LEVELS APPROVED IN JANUARY (BONN 1777). THE BUNDESTAG VOTE ON THE SUPPLEMENTARY BUDGET AS CHANGED IN COMMITTEE WILL TAKE PLACE ON JUNE 14, WITH APPROVAL GENERALLY TAKEN FOR GRANTED. PASSAGE BY THE BUNDESRAT IS EXPECTED TO FOLLOW ON JUNE 23.

3. FOREIGN EXCHANGE MARKET:

GERMAN FOREIGN EXCHANGE MARKETS WERE CALM. DURING THE REPORTING PERIOD FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS		FORWARD DOLLARS		
	(IN DM PER \$1.--)		(IN PCT. PER ANNUM)		
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH

JUNE 6	2.0925	2.0913	2.0940	-4.1	-4.8
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7	2.0885	2.0906	2.0895	-4.0	-4.6
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8	2.0865	2.0857	2.0850	-4.3	-4.7
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9	2.0908	2.0915	2.0900	-4.4	-4.7
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12	2.0815	2.0860	2.0850	-4.8	-4.8
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13	2.0805	2.0807	N.A.	N.A.	N.A.
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4. MONEY MARKET:

THE GERMAN MONEY MARKET REMAINED TIGHT WITH ALL MONEY RATES BEING AT OR SLIGHTLY ABOVE THE 3 1/2 PERCENT LOMBARD RATE. DURING THE PERIOD UNDER REVIEW FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
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JUNE 6	3.50-3.55	3.55	3.60
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SIL-01 /115 W

-----049997 141019Z /21

R 141032Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9367
DEPARTMENT TREASURY
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AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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7	3.50-3.55	3.55	3.60
8	3.50-3.55	3.55	3.65
9	3.50-3.55	3.55	3.65
12	3.50-3.55	3.55	3 65

5. BUNDESBANK FOREIGN POSITION:
DURING THE PERIOD MAY 24-31 THE BUNDESBANK'S NET
FOREIGN POSITION DECLINED BY DM 0.8 BILLION TO
DM 88.0 BILLION. FOREIGN EXCHANGE HOLDINGS DECLINED
BY DM 505 MILLION AND THE FRG'S IMF GOLD TRANCHE
POSITION BY DM 140 MILLION. SDR HOLDINGS INCREASED
BY DM 66 MILLION AND FOREIGN LIABILITIES BY ABOUT
DM 220 MILLION.

6. BANK LIQUIDITY:
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DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY
DM 2.2 BILLION. THE BASIC FACTORS INCREASING LIQUIDITY
WERE USUAL END-OF-MONTH PAYMENTS OF PUBLIC AUTHORITIES
REDUCING BUNDESBANK ASSETS OF THE FEDERAL GOVERNMENT
BY DM 4.1 BILLION AND OF STATE GOVERNMENTS' ASSETS BY

DM 3.0 BILLION. ASSETS OF OTHER PUBLIC AUTHORITIES
DECLINED BY DM 1.4 BILLION. ANOTHER FACTOR INCREASING
LIQUIDITY WAS THE PURCHASE BY THE BUNDESBANK OF DM
1.1 BILLION OF MONEY MARKET PAPER AND DM 0.4 BILLION
OF DOMESTIC BONDS. (IN LATE MAY THE BUNDESBANK BEGAN
TO INTERVENE IN THE MARKET FOR DOMESTIC BONDS BY
PURCHASING BONDS FOR ITS OWN ACCOUNT - SEE BONN 9847).
MAJOR FACTORS REDUCING LIQUIDITY WERE THE USUAL
INCREASE IN CURRENCY IN CIRCULATION AT THE END OF
A MONTH (DM 3.4 BILLION), A DM 1.0 BILLION INCREASE
IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK
TO MEET MAY RESERVE REQUIREMENTS AND THE ABOVE-
MENTIONED DECLINE IN THE BUNDESBANK'S FOREIGN POSITION.
OTHER FACTORS REDUCED LIQUIDITY, NET, BY DM 2.6 BILLION.
THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE
LOMBARD BORROWINGS BY DM 2.0 BILLION AND SPECIAL
REDISCOUNT BORROWINGS BY DM 0.2 BILLION.

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7. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS PRICES DECLINED AGAIN AND PRICE GAINS ACHIEVED DURING THE PREVIOUS REPORTING PERIOD (SEE BONN 10376) VANISHED. ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY WERE AS FOLLOWS:

REMAINING

MATURITY

(YEARS)	1	3	5	7	9	10
JUNE 9	4.15	5.25	5.65	6.05	6.20	6.30
JUNE 2	4.10	5.15	5.60	5.90	6.15	6.20

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THE NEXT DOMESTIC LOAN WILL BE A DM 750 MILLION LOAN OF THE FEDERAL RAILWAYS (COUPON 6 PERCENT, ISSUE PRICE 99, MATURITY 10 YEARS NON-CALLABLE, YIELD TO MATURITY 6.14 PERCENT). DM 600 MILLION OF THE LOAN WILL BE PUBLICLY OFFERED DURING THE PERIOD JUNE 14 TO 16, THE REMAINING DM 150 MILLION WILL BE RETAINED FOR PRICE SUPPORTING OPERATIONS.

8. FOREIGN DM BONDS:

ON JUNE 8, THE SUB-COMMITTEE FOR FOREIGN DM BONDS OF THE CENTRAL CAPITAL MARKET COMMITTEE LIFTED THE TEMPORARY STOP ON THE FLOATATION OF FOREIGN DM BONDS (SEE BONN 8985). IN THE REMAINDER OF JUNE AND JULY, HOWEVER, ONLY FIVE DM ISSUES TOTALING DM 430 MILLION WILL BE OFFERED. THESE ISSUES INCLUDE DM 100 MILLION FOR THE JAPANESE CITY OF KOBE, DM 100 MILLION PRIVATE PLACEMENT FOR THE REPUBLIC OF AUSTRIA, DM 30 MILLION FOR THE JAPANESE INDUSTRIAL FIRM RICOH, DM 100 MILLION FOR THE NORWEGIAN NORGES KOMMUNAL BANK AND DM 100 MILLION FOR THE COMMERZBANK INTERNATIONAL S.A., LUXEMBOURG.

THE LATTER BONDS WILL CARRY A 3 1/2 PERCENT COUPON, AN ISSUE PRICE OF 100, AND A MATURITY OF 10 YEARS. BONDS IN THE VALUE OF DM 1000 WILL BE ATTACHED WITH OPTION WARRANTS ENTITLING THE HOLDER TO PURCHASE FIVE COMMERZBANK SHARES AT A PRICE OF DM 218 PER SHARE.
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Message Attributes

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TAGS: ECON, EFIN, GE
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vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/ffabbc89-c288-dd11-92da-001cc4696bcc
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